Complementing or replacing old age insurance? The growing importance of funded pensions in the French pension system

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Abstract

The French pension system has for long been characterised by its very low reliance on funded pensions, which have almost become a taboo subject since the Second World War. While other countries have often complemented statutory pensions with funded occupational pension schemes, in France, the social partners have put in place an encompassing network of supplementary pension arrangements financed on a pay-as-you-go (PAYG) basis. The generosity of these schemes and their defence by trade unions and part of the business community has considerably limited the room for expansion of funded pension schemes. However, the role played by these supplementary PAYG schemes has significantly changed over the last two decades. First, the gradual harmonization of rules within the different schemes and their compliance with EU social security regulations are leading to their quasi "first-pillarization". Second, similar to statutory pensions, these schemes have also undergone gradual retrenchment and will offer reduced replacement rates. As a result, the development of pension savings has been implicitly promoted, although more on a voluntary basis than on a compulsory one. Despite a unification in the regulatory framework governing funded – occupational and personal – pension plans, access to these schemes remains mostly limited to high-skilled workers.

Keywords

France, occupational fragmentation, pay-as-you-go occupational schemes, funded private pensions, governance

Introduction[1]

The French pension system has for long been characterised by its very low reliance on funded pensions, which have almost become a taboo subject since the Second World War. While other countries have often complemented statutory pensions with funded occupational pension schemes, in France, the social partners have put in place an encompassing network of supplementary pension arrangements financed on a pay-as-you-go (PAYG) basis. The generosity of these schemes and their defence by trade unions and part of the business community have considerably limited the room for expansion of funded pension schemes. However, the role played by these supplementary PAYG schemes has significantly changed over the last two decades. First, the gradual harmonization of rules within the different schemes and their compliance with EU social security regulations are leading to their quasi "first-pillarization". Second, similar to statutory pensions, these schemes have also undergone gradual retrenchment and will offer reduced replacement rates. As a result, the development of pension savings has been implicitly promoted, although more on a voluntary basis than on a compulsory one. After a presentation of the main features of the French pension system and its recent evolution (Part I), this chapter will analyse the governance of mandatory pay-as-you-go occupational schemes (Part II) as well as the functioning of funded – occupational and personal – pension plans (Part III). The second and the third part follow a similar structure. We first give an overview of who is covered by the different schemes. Then, we describe the type of benefits that are offered and how they are financed. Finally, we analyse the administrative and the regulatory governance of the different schemes.

Evolution of the Public-Private Pension Mix

The main features of the French pension system

The French pension system relies almost exclusively on the social insurance technique. It is a PAYG system which is financed mainly by social security contributions as well as by taxes. It is managed by pension funds (*caisses d'assurance vieillesse*) that are independent of the state budget and overseen by administrative councils composed of employee and employer representatives. Benefits are earnings-related and are provided to members of the workforce who have a sufficient contribution record. For older people who do not qualify for a contributory pension or whose retirement benefits are too low, the state provides a means-tested minimum pension[2]. This is a non contributory scheme, which is financed by income taxes and managed by the state. As a result of the high degree of occupational fragmentation of the French pension system, one has to distinguish between two types of mandatory pension arrangements: those in which the pension has been traditionally provided by two separate PAYG pillars and those in which a full pension has until now been guaranteed by a single pillar. Wage-earners of the private sector are covered by the first type of pension arrangements, whereas, until recently, farmers, most of the self-employed and public sector employees had to pay their contributions to a single pillar.

Wage-earners of the private sector (around 60 per cent of the workforce), whether they are employed in trade, industry or in the service sector, are covered by a statutory scheme called the *régime général*. This first pillar provides basic defined-benefit pensions which are financed by social security contributions calculated as a percentage of gross wage (14.95% up to a certain ceiling and 1.7% without a ceiling in 2008). Benefits are calculated on the basis of the annual average wage of the 25 years of highest pay, of the duration of insurance as well as of a replacement rate which is itself dependent on the duration of insurance and on the age of the insured person (with a maximum rate of 50%). Any person who contributed for at least a trimester to the *régime général* is entitled to draw a pension from it. Non-contributory periods such as military service, unemployment, maternity leave or sickness are recognised up to a certain limit. In addition to this statutory scheme, wage-earners of the private sector must also become registered with a mandatory supplementary pension scheme (*régimes complémentaires obligatoires*). Contrary to the *régime général* which was created by statute, the *régimes complémentaires* were established by collective agreements[3]. Therefore, social partners have an exclusive responsibility for their day-to-day management. However, these schemes also operate on a pay-as-you-go basis. Contributions are paid to independent pension funds which must comply with rules set by two federations managed by the social partners. The first federation, *ARRCO* (*Association des Régimes de Retraites Complémentaires*), regroups all the funds which subsidise complementary retirement benefits for all employees. The second federation, *AGIRC* (*Association Générale des Institutions de Retraites des Cadres*), supervises pension funds which finance supplementary pension benefits for managers (the 'cadres'). Thus, managers get different benefits and have to pay different contribution rates from other wage-earners. Pensions from these supplementary schemes are based on the "points" technique: employees receive points in return for the contributions they have been paying. The value of these points, which determines the level of the pension received, is regularly modified by *AGIRC* and *ARRCO*, after taking into account changes in the overall economic and demographic situation.

The principles regulating old-age pensions are roughly the same for farmers (3 per cent of the workforce) and the self-employed (12 per cent), but their schemes are managed by separate organisations (See Table 1). These occupational categories also receive a defined-benefit basic pension, calculated on the basis of an annual average income (instead of an annual average wage). However, the first pillar in these schemes is much more heavily subsidised by the state budget than the *régime général*. Until recently, most of the self-employed did not draw pensions from a second pillar. The 2003 *Fillon* reform has altered this state of affairs: all the self-employed (including farmers) now have to pay additional social security contributions to supplementary points schemes.

The organisation of the pension system for public sector employees has traditionally differed considerably from private sector schemes, as generous retirement benefits have always been guaranteed by a single pillar. Each category of public sector employees (20 per cent of the labour force) must join a specific pension plan. The degree of fragmentation along occupational lines is very high for these pension arrangements. Civil servants and the military get benefits from the *Régime des Agents de l'Etat*, local government employees from the *CNRACL*, while people such as miners, rail workers, electricity and gas employees who are employed in state-owned firms or by the state are members of *régimes spéciaux*. Most of these schemes are managed directly by the responsible firm or organisation, while some of them are managed by an independent pension fund (CNRACL, miners, Opéra de Paris, Comédie Française, seamen, etc.). Although all pension arrangements have their own rules, they share significant characteristics (See Dupeyroux et al., 2005, pp. 911-912). All of them are PAYG and offer defined-benefit pensions that maintain a living standard close to the one enjoyed while the beneficiaries were still in activity. Benefits are calculated on the basis of the wage earned during the last six months of the worker's career and the maximum replacement rate is fixed at 75%. Rights are acquired after a minimum contribution period of 15 years and the maximum replacement rate can be secured after a 37.5 or a 40 year contribution period[4]. However, they also differ in certain respects, notably on the financing method and on the minimum age of retirement. Thus, contribution rates vary from 7.75% in the miners' pension scheme to 36.29% in the *SNCF* (national railway company) pension plan while the minimum retirement age spans from 40 years for opera-dancers and 50 years for railwaymen to 55 years or 60 years for civil servants. Public sector schemes have thus historically been more generous. Nevertheless, the architecture of these schemes is rapidly changing, as the 2003 reform established a second pillar points scheme for all civil servants (*Régime additionnel de la fonction publique*) and the creation of comparable schemes was discussed in 2008 as part of the negotiations over the reform of *régimes spéciaux*.

The specific architecture of the French pension system has not left much space for the development of fully-funded pension plans. As all statutory benefits are earnings-related, be they provided by a single pillar or by two different pillars, pensioners have been generally able to maintain their income status. Historically, only a few occupational categories have benefited from funded pensions: teachers (*CREF*), state employees (*PREFON-Retraite*), locally elected politicians (*FONPEL*) as well as employees in some private companies (such as in banks or insurance companies). However, recent reforms have been systematically promoting the creation of private pension arrangements. Since 1994, the self-employed have been offered tax incentives in order to sign up for voluntary pension savings schemes. The 2003 Fillon reform has also introduced two new instruments that will have to make up for the future erosion of wage-earners' statutory pensions. On the one hand, social partners are encouraged to negotiate the creation of enterprise-level or industry-level voluntary pension schemes (*PERCO*). On the other hand, tax rebates are offered to individuals who will join an individual retirement plan (*PERP*). These programs are still at an embryonic stage, but the relatively high number of people who have signed up for a *PERP* contract[5] as well as the already high number of individuals who have purchased life insurance contracts[6] seem to point to a gradual change in the public-private mix within the French pension system.

			First Pillar		Second Pillar	Third Pillar
			Basic pension	Income maintenance		Topping-up
WAGE-EARNERS						
Private sector (or similar status)	Workers and employees in the agricultural sector	Means-tested minimum income (*ASPA*)	*Mutualité sociale agricole*		*ARRCO*	Various funded schemes (*art. 83*, *art. 39*, *PERCO*, *PERP*)
	Management staff in the agricultural sector		*Mutualité sociale agricole*		*ARRCO*, *AGIRC*	
	Management staff in industry, trade and services		*Régime général de la Sécurité sociale* (managed by the *CNAV*)		*ARRCO*, *AGIRC*	
	Workers and employees in industry, trade and services		*Régime général de la Sécurité sociale* (managed by the *CNAV*)		*ARRCO*	
	Wage-earners in the public sector without tenure		*Régime général de la Sécurité sociale* (managed by the *CNAV*)		*IRCANTEC*	*Préfon-Retraite*
Public sector (or similar status)	Civil servants and Military		*Régime des Agents de l'Etat*		*Régime Additionnel de la Fonction Publique*	*Préfon-Retraite:* Voluntary fully-funded DC scheme managed by a private insurance company (*CNP-Assurances*)
	Civil servants employed by public hospitals or by local authorities		*CNRACL*		*Régime Additionnel de la Fonction Publique*	
	Other occupations		*Régimes spéciaux*: miners, seamen, workers employed by the state, railwaymen, employees of the *RATP* (Paris public transport company), employees of state-owned electricity and gas companies, employees of the *Banque de France*, employees of the *Comédie Française*, employees of the *Opéra de Paris*, senators, MPs,…			
THE SELF-EMPLOYED						
Farmers		Means-tested min. income	*Mutualité Sociale Agricole*		*RCO-MSA*	Voluntary fully-funded DC schemes (contrats *Madelin*)
Craftsmen			*Régime social des indépendants* (formerly ORGANIC and AVA)		*RCO-RSI*	
Tradesmen and manufacturers			*Régime social des indépendants* (formerly ORGANIC and AVA)		*RCO-RSI*	
The learned professions			*CNAVPL* With 11 professional sections: physicians, dentists, chemists, chartered accountants, architects,etc		Supplementary schemes (funded or PAYG; voluntary or mandatory)	
			CNBF Advocates			*Avocapi* Voluntary fully-funded DC scheme

Table 1 General organisation of the French pension system

Note: All pension schemes are PAYG and mandatory, unless otherwise specified

Sources: adapted from AGIRC-ARRCO (2008) ; Préfon (2007)

<table>
<tr><td></td><td>First Pillar</td><td>Second Pillar</td><td colspan="3">Third Pillar</td></tr>
<tr><td></td><td>State pensions</td><td>PAYG occupational pensions</td><td colspan="2">Funded occupational pensions</td><td>Personal pension</td></tr>
<tr><td></td><td></td><td></td><td>Employer Commitment</td><td>Collective agreement</td><td></td></tr>
<tr><td>Income (age 60+)</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="2">Third tier (topping up / replacement gap)</td><td rowspan="2"></td><td rowspan="2"></td><td></td><td>PERCO – voluntary fully-funded DC); tax incentives</td><td rowspan="2">PERP – Voluntary fully-funded DC schemes; Tax incentives</td></tr>
<tr><td colspan="2">Art. 39 – mandatory fully-funded DB pensions; tax incentives

Art. 83 – mandatory fully-funded DC; tax incentives</td></tr>
<tr><td>Second tier (income maintenance)</td><td>Statutory PAYG DB pension scheme (régime général), financed by social contributions and managed by the social partners (with strong control by the Executive and the Parliament)</td><td>Mandatory (‘quasi statutory’) PAYG “points” schemes, financed by social contributions and managed by the social partners:
- for all wage-earners (ARRCO)
- for executives (AGIRC)</td><td></td><td></td><td></td></tr>
<tr><td>First tier (poverty alleviation)</td><td>Means-tested minimum income in old-age (ASPA – formerly minimum vieillesse), tax-financed</td><td></td><td></td><td></td><td></td></tr>
</table>

Table 2 Pillars and Tiers of French Pensions for wage-earners in the private sector

ASPA = Allocation de solidarité aux personnes âgées; ARRCO = Association pour le régime complémentaire des salaries; AGIRC = Association Générale des Institutions de Retraite des Cadres; PERCO = Plan d'épargne retraite collectif; PERP = Plan d'épargne retraite populaire

The changing public-private pension mix

Like other Bismarckian systems, the French pension system responded to demographic and socioeconomic pressures, through a characteristic four-stage sequence of transformations, each stage affecting the following one (Bonoli and Palier, 2007; see also Bonoli, 2000; Schludi, 2005; Palier, 2010). In the first place, the escalation in pension expenditures was coped with through increases in payroll taxes. This was the 'automatic' adjustment mechanism built into pension systems based on social insurance. In the *régime général* (see figure 1), employers' contributions were gradually raised from 5.50 per cent of gross pay (up to a ceiling) in 1970 to 8.20 per cent in 1979. They remained stable until 1991, when the government introduced a new contribution, without ceiling, of 1.6 per cent of gross pay. Employees' contribution rates increased from 3 per cent in 1970, to 4.70 per cent in 1979, to 6.55 per cent in 1991. In 1993 and 1994, contribution rates were also increased by the social partners in the *ARRCO* and *AGIRC* pension schemes, but these changes coincided with a reduction in benefit formulas.

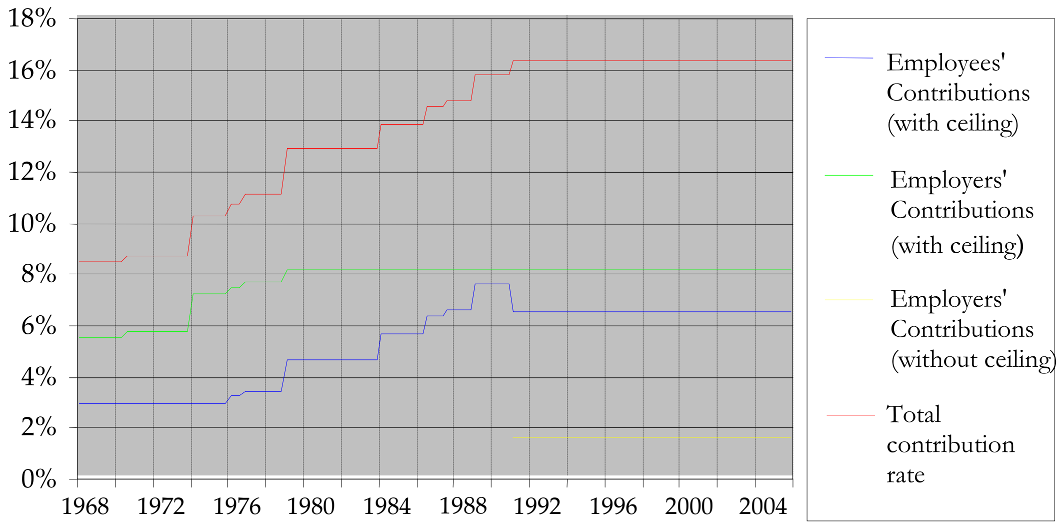

Figure 1 Pension contribution rates, régime général, 1967-2005

Source: data gathered from Bozio (2006), p. 341

Pension funding became a critical issue in France, at the beginning of the 1980s. Despite the publication of several hard-hitting reports, successive governments stalled on reforms for more than a decade for fear of a clash with very militant unions. Concerns over rising contribution rates as well as the necessity to comply with the Maastricht criteria provided a spur for a first wave of reforms at the beginning of the 1990s. In March 1993, the RPR-UDF (right-wing) coalition secured a comfortable majority in the parliamentary election. Soon after, the Balladur government presented a reform proposal that was in line with measures suggested in an earlier White Paper published by their socialist predecessors in 1991. The Balladur reform was limited to the *régime général*. Three measures aimed directly at a reduction in benefits and, possibly, at an increase in retirement age. First, the contribution period required to qualify for a full pension of 50 per cent of the reference salary was to be increased from 37.5 to 40 years. Second, benefits were to be calculated on the basis of the wages earned during the 25 best years of a worker's career (instead of the 10 best years). These two changes were to be phased in over eleven years. Third, benefit indexation was to be linked to price inflation rather than to wage increases. Despite opposition from the socialist party and from trade unions, the Balladur reform stands out as one that met with little resistance. In fact, it was negotiated on the basis of a quid pro quo between the unions and the government (Bonoli, 1997). Retrenchment was made more acceptable as the government acceded to the unions' persistent demand that non-contributory pensions be financed out of general tax revenues instead of being financed by social insurance funds. Hence, the reform created an 'old-age solidarity fund'[7], which would finance means-tested pensions as well as pension credits for non-contributory periods such as military service, unemployment, maternity leave or sickness. In 1995, Prime Minister Alain Juppé attempted to push through a similar reform in the civil servants' pension schemes as well as in the *régimes spéciaux* (see Tables 1 and 3), but without prior negotiation with the unions. This upsurge of *dirigisme* sparked off huge demonstrations and is widely considered as a cause of the RPR-UDF government's subsequent defeat in the 1997 parliamentary election.

The Balladur reform, Juppé's failed attempt as well as the publication of a series of reports under the socialist government between 1997 and 2002 contributed to a dramatisation of the situation of the French pension system. Partly due to this climate of insecurity and partly due to the new opportunities offered by financial deregulation, the 1990s saw a growing number of people 'save' for their pension, via financial products such as life insurance. This relatively unexpected development facilitated more radical retrenchment in a second wave of reforms. In 2003, the recently elected Raffarin government brought about a major reform that affected most pension schemes, with the exception of *régimes spéciaux*. The most conspicuous change has been the gradual equalisation of the contribution period required to qualify for a full pension between the civil servants' pension schemes and the *régime général* (See Table 3). A second key measure was intended to increase employment rates among the elderly: a system of disincentives to early retirement (*décote*, i.e. cut in benefit level) as well as of incentives to postponed retirement (*surcote*, i.e. increase in benefit level) was created in all schemes affected by the reform. As these measures had come up against fierce opposition and had sparked off large-scale demonstrations, the government made a few concessions to the unions (minimum pension set at 85 per cent of the minimum wage, retirement at age 58 for workers with a long contribution record, slight increase in contribution rate in 2006). However, two changes that went practically unnoticed were also introduced by the *Fillon* reform.

Year	*Reform*	*Political context*
1993	*Balladur* reform (*régime général*) - Reference salary calculated on the basis of 25 best years (instead of 10 best years) - Contribution record for full pension increased from 37.5 years to 40 years - Price indexation instead of wage indexation - Establishment of the *Fonds de Solidarité Vieillesse* to finance non-contributory benefits (the *FSV* being financed through *CSG*)	RPR-UDF coalition (after victory in general election)
1995	*Juppé* plan (civil servants' pension schemes and *régimes spéciaux*) - civil servants' pension schemes and *régimes spéciaux* to be 'aligned' with *régime général*. Notably, contribution record for full pension to be increased from 37.5 years to 40 years, in public sector schemes (abortive attempt) - extension of governmental and parliamentary control over social security budget (*Loi de financement de la sécurité sociale*)	RPR-UDF coalition (after Chirac's victory in presidential election) Mass strike
1997	*Thomas* law (not implemented and repealed in 2002) - fully-funded DC pension arrangements (*plans d'épargne-retraite*) to be established at the firm level or at the industry level, with voluntary participation	RPR-UDF coalition (parliamentary initiative)
1993-1994 1996 2001	*AGIRC* and *ARRCO* agreements - increases in contribution rates - price indexation of 'notional contributions' (*points*) as well as of current benefits - clearing system between *AGIRC* and *ARRCO* - simplified governance (fewer pension funds and greater cooperation between the two federations)	Collective agreements
2003	*Fillon* reform (various pension schemes) - Contribution record for full pension in civil servants' pension schemes increased from 37.5 years to 40 years by 2008 - Contribution record for full pension in *régime général* and in civil servants' schemes to be increased from 40 years in 2008 to 41 years by 2012 (and 42 years by 2020) - Disincentives to early retirement and incentives to postponed retirement (all schemes) - Merger between pension schemes for the self-employed - PAYG points schemes for civil servants and for the self-employed - Legal framework for (voluntary) occupational and personal fully-funded DC pension arrangements	UMP majority (after Chirac's new victory in presidential election)
2007-2008	*Régimes spéciaux* reform - Contribution record for full pension in *régimes spéciaux* increased from 37.5 years to 40 years - Price indexation instead of wage indexation - Disincentives to early retirement and incentives to postponed retirement	UMP majority (after Sarkozy's victory in presidential election)

Table 3 Chronology of Pension Reforms since the 1980s

On the one hand, the craftsmen's (*CANCAVA*) and the tradesmen's and manufacturers' (*ORGANIC*) social security schemes have been merged into a single scheme for the self-employed (*Régime social des indépendants*). On the other hand, mandatory second pillar PAYG points schemes have been created for civil servants (as a compensation for the decrease in future benefits), for farmers and for the self-employed[8] These two transformations are indicators of the attempt that is being made to reduce the occupational fragmentation of the French pension system and hence to promote more flexible labour markets. The model that is being followed is clearly the wage-earners' pension system (*régime général* and *ARRCO/AGIRC*).

Occupational fragmentation has also been at the centre of the 2007-2008 reform of *régimes spéciaux*. During the run-up to the 2007 presidential election, Nicolas Sarkozy persistently denounced the fact that some categories of the population enjoyed 'unfair privileges' that other groups did not have. Clearly signalled during the election campaign, a reform of *régimes spéciaux* was announced by the Fillon government in October 2007. The proposed measures were modelled on the 2003 Fillon reform (See Table 3) and, one of the measures put forward in order to overcome the unions' fierce opposition to the reform was the creation of supplementary PAYG points pensions that would partly offset the decrease in public sector pension benefits. Despite the nationwide strikes and demonstrations that were organised in protest, the UMP governments took advantage of the traditional divisions between trade unions and succeeded in pushing through major reforms both in 2003 and in 2007-2008. In this second wave of reforms, retrenchment was tolerated by the population, arguably because of growing concerns over inequalities between different occupational groups (private sector workers vs. public sector employees) and because of growing acceptance of fully-funded pensions as a complement to public pensions.

The 2003 Fillon reform was also a breakaway from the existing public-private mix, given that it conspicuously planned to promote the development of voluntary retirement savings plans. For the first time, a stable legal framework has been introduced for voluntary occupational (*PERCO*) and personal (*PERP*) fully-funded DC pension arrangements (See section 4). Like in many Bismarckian systems, the first wave (1993) and the second wave (2003/2007-2008) of reforms resulted in the fact that younger cohorts of workers started to join pension funds and began to save for their own retirement. The development of these schemes is still at an initial stage, but the number of contributors to these schemes has been growing steadily since their introduction. The popularity of personal pension plans is in line with the enduring popularity of life insurance in France, whereas the fact that coverage by firm-level and sector-level occupational pensions is still very low is due to the weakness of the French collective bargaining system.

The Governance of Supplementary Pensions

Second pillar: mandatory PAYG occupational pensions – Towards a "first-pillarization"?

The organisation of French occupational pensions is unique, as the great bulk of them is not fully-funded but based on pay-as-you-go financing. PAYG occupational schemes were created for managers in 1947 (*AGIRC*) and for other workers in 1961 (*ARRCO*) and became mandatory for all wage-earners of the private-sector in 1972. Although the *ARRCO* scheme could be initially characterised as 'occupational' given that contribution levels and benefit formulas differed according to the company or industry in which workers were employed, the gradual harmonisation of *ARRCO* schemes (see below) implies that the distinctiveness of French supplementary schemes has changed meaning in that they are 'occupational', not because they are negotiated at the industry level or at the firm level, but because they are organised according to the socio-economic status of the beneficiaries (wage-earners vs. the self-employed, managers vs. employees and workers, public sector employees vs. private sector employees). Indeed, based on the AGIRC/ARRCO model, mandatory PAYG points schemes have been gradually extended to other occupational categories. Thus, a special scheme was created in 1970 for employees in the public sector who do not have a tenure (*IRCANTEC*[9]) and another one was set up for craftsmen in 1978. Other categories of workers were excluded from them until recently, but occupational PAYG point schemes were created in 2003 for the self-employed, for farmers and for civil servants. This section concentrates upon ARRCO and AGIRC schemes since they cover approximately two thirds of the workforce and because they provided the model that was followed while creating similar schemes for other occupational categories.

What kind of benefits?

ARRCO and AGIRC supplementary pensions are "points schemes". Participants in the schemes earn pension points based on their individual earnings (as well as on the "price of the point"; see fn. 10) in exchange for the contributions they pay into the system. The pension points are filed in the records of the pension manager during the participant's career and at retirement the supplementary pension benefit is calculated by multiplying the sum of the pension points by a "pension-point value"[10]. Thus, the pension that is drawn depends on the wages earned during the whole career of the insured, and although these "points schemes" are not defined-contribution plans *per se*, they share characteristics with notional defined contribution pension plans (See Legros, 2006; Holzmann and Palmer, 2006).

Beneficiaries	Coverage* (in millions)	Occupational pension form	Initiators (and year of enactment)	Sponsors (and financing mode)	Managers	Overseers	Benefit type
Wage-earners of the private sector	Contrib.: 18** Benef.: 11.3**	*ARRCO*	Collective agreement (1961) extended by the state	Employers and employees (contributions)	1. "paritarian" institutions 2. *ARRCO*	Bipartite supervisory boards (in 1. and 2.)	"points" scheme
Managers of the private sector	Contrib.: 3.73** Benef.: 2.17**	*AGIRC*	Collective agreement (1947) extended by the state	Employers and employees (contributions)	1. "paritarian" institutions 2. *AGIRC*	Bipartite supervisory boards (in 1. and 2.)	"points" scheme
Wage-earners of the public sector without tenure	Contrib.: 2.5 Benef.: 1.65	*IRCANTEC*	State (1970)	State as employer and employees (contributions)	*IRCANTEC and Caisse des Dépôts (CDC)*	Bipartite supervisory board	"points" scheme
Civil servants (all categories) and the military	Contrib.: 4.4 Benef.: 0.09	*Régime Additionnel de la Fonction Publique (RAFP)*	State (2003)	State as employer and employees (contributions on bonuses)	*Etablissement de RAFP and Caisse des Dépôts (CDC)*	Bipartite supervisory board	"points" scheme
Self-employed farmers	Contrib.: 0.53 Benef.: 0.45	*Régime de retraite complémentaire obligatoire*	State (2002)	The insured (contributions) and the state (subsidies)	*Mutualité sociale agricole*	Supervisory board (members = representatives of the insured)	"points" scheme
Craftsmen	Contrib.: 1.36 Benef.: 0.96	*Régime de retraite complémentaire obligatoire*	State (1978/ reformed and merged with tradesmen's scheme in 2003)	The insured (contributions) and the state (subsidies)	*Régime social des indépendants*	Supervisory board (members = representatives of the insured)	"points" scheme
Tradesmen and manufacturers			State (2003)				

Table 4 Mandatory PAYG occupational schemes (*retraite complémentaire obligatoire*)

*Sources: *Unless otherwise stated, AGIRC-ARRCO (2008) *** [*http://www.arrco.fr/chiffres-cles0/donnees-statistiques/*](http://www.arrco.fr/chiffres-cles0/donnees-statistiques/)

*Notes: *figures are for 2006 **figures on December 31, 2007*

AGIRC pensions are drawn only by managers of the private sector while ARRCO pensions are received by all wage-earners of the private sector (including managers). Contributions are paid not only by employees having full-time and/or permanent contracts, but also by workers in atypical employment (i.e. having part-time and/or fixed-term contracts). Their contributions and, consequently their benefits, are calculated on the same basis as those of standard workers.

The retirement age at ARRCO and AGIRC is normally set at 65. However, given that the statutory retirement age (i.e. in the *régime général*) was set at 60 in 1982, social partners negotiated the possibility of drawing a full supplementary pension at age 60 and even from age 55 although this entails a cut in the benefit level. Since the *Fillon* reform has made it possible for workers aged 58 to get a full pension if they have had a long contribution record, the social partners have negotiated the possibility for workers to receive an ARRCO or an AGIRC pension without a cut in the benefit level, from the moment when the full statutory pension is drawn. There is no minimum contributory period and benefits can be drawn even if the beneficiary lives abroad. As a result, vesting is automatic and the portability of pension rights is ensured by the fact that ARRCO and AGIRC are national – and not industry-level – schemes applying to all wage-earners of the private sector. However, there is no possibility to transfer pension points from ARRCO or AGIRC to the other newly created occupational PAYG points schemes or vice versa. Although ARRCO and AGIRC pensions are much less redistributive than DB pensions received from the *régime général*, “free” pension points can be earned for non contributory periods such as unemployment, early retirement, maternity or sickness. Moreover, both ARRCO and AGIRC offer pension bonuses to those retirees who raised three children or more during their career. Finally, both schemes offer benefits to the surviving spouse or to orphaned children under the age of 21[11].

Although the principles underlying the way benefits are calculated have been stable, the purchasing power of AGIRC/ARRCO benefits has been reduced in recent years, as the social partners have been altering indexation mechanisms. Both the price of the point (PP) and the pension point value (PV) are indexed. In 1993, the social partners decided to increase the price of the point – and hence to decrease benefit levels – by indexing it to a much higher value than the evolution of prices and of average wages. Moreover, they decided to decrease the value of the point by indexing it to price inflation rather than to wage inflation. Between 2003 and 2008, the price of the point was indexed again to the evolution of the average wage, but the pension point value continued to be indexed to price inflation (See figures 2 and 3). In 2006, the average monthly benefit of all beneficiaries[12] was approximated at 257 euros in ARRCO and 728 in AGIRC, compared to 505 euros in the *régime général*. Women’s pensions were lower than men’s by 42% in ARRCO and by 60% in AGIRC[13] compared to 29% in the statutory scheme (DREES, 2008b, p. 3). According to government estimations (COR, 2007b, pp. 64)[14], ARRCO pensions offered in 2003 a wage replacement rate of 27.6% for a standard worker born in 1938 who had worked 40 years during his career, compared to 55.9% in the *régime général*[15]. A manager born the same year and having worked the same amount of time got a wage replacement rate of 11.8% in ARRCO, 25.4% in AGIRC and 26.9% in the statutory scheme[16].

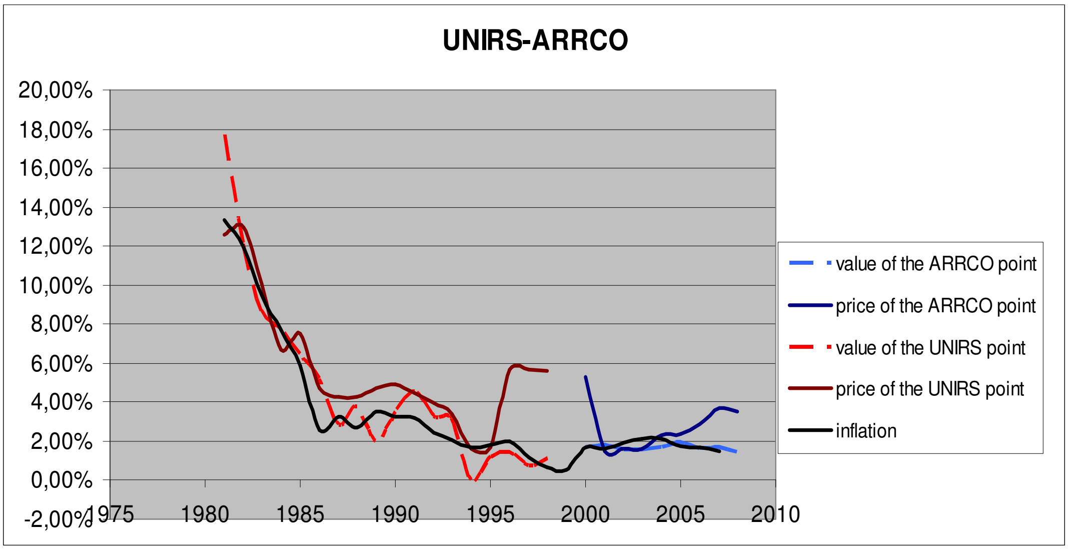

Figure 2 Benefit levels in UNIRS-ARRCO and prices (% change on previous year), 1981-2008

Source: Own calculations; data gathered from Bozio (2006), from ARRCO website and from OECD Stat

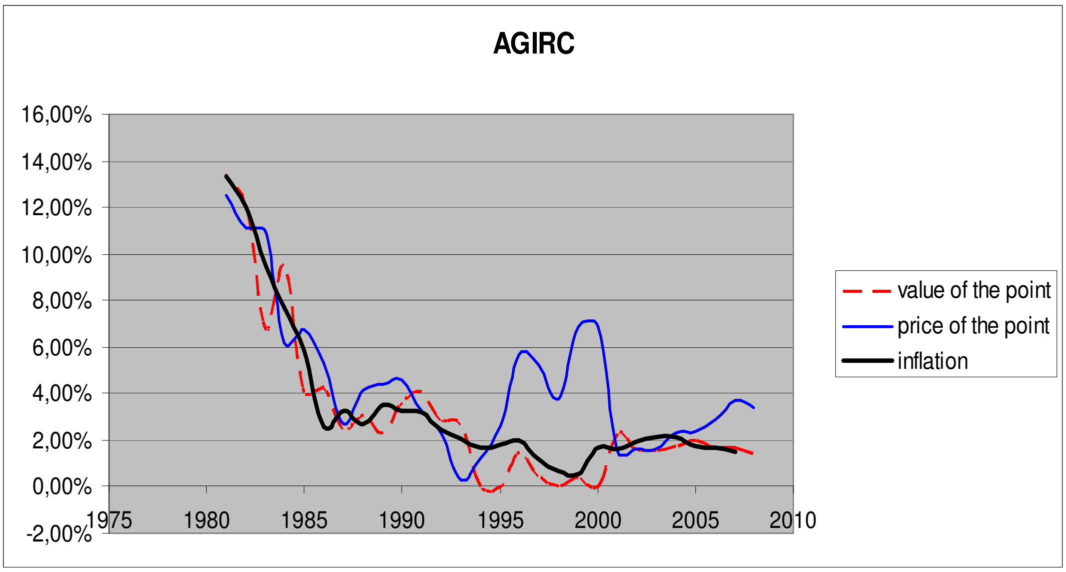

Figure 3 Benefit levels in AGIRC and prices (% change on previous year), 1980-2008

Source: Own calculations; data gathered from Bozio (2006), from AGIRC website and from OECD Stat

Who pays?

ARRCO and AGIRC schemes are financed by joint contributions. Wage-earners who are not 'cadres' must pay contributions only to ARRCO, while 'cadres'[17] have to pay contributions both to ARRCO and to AGIRC as they draw pensions from both schemes[18]. The basis on which contributions are assessed is set according to the social security ceiling (which was equal to 2773 euros per month in 2008). Until 1999, executives paid higher contributions than non-executives, and as a result got a higher number of pension points. However, a consensus has emerged among the social partners to harmonise benefit formulas between the two schemes. Hence, non-executives and executives now pay the same total contribution rate below the ceiling as well as above the ceiling, even though employer rates and employee rates are not necessarily the same.

In order to cope with possible financial imbalances within the occupational schemes, the social partners made a distinction between different types of contribution rates when AGIRC and ARRCO were created. Given that pension points are calculated according to the contributions that are paid by the insured into the system, a simple rise in contribution rates would have led to a higher number of points earned. Therefore, it was necessary to allow for the possibility of mobilizing more financial resources without automatically granting rights to higher benefits. Thus, one must distinguish between three different contribution rates. The 'contractual' contribution rate (*taux contractuel*) is used as a basis to calculate pension points whereas the 'effective rate' (*taux effectif*) is the contribution rate that is effectively paid by companies. This 'effective rate' is the product of the 'contractual rate' and of the 'calling rate' (*taux d'appel*). The calling rate was lower than 100% at the inception of the schemes (Bozio, 2006, p. 70) but it was gradually raised from the early 1970s, in order to cope with growing expenditures due to the maturation of the system and with future demographic imbalances. In the AGIRC scheme, it reached 103% in 1979, 106% in 1986 and was set at 125% in 1995. In the ARRCO scheme, the calling rate was set at 102.5% in 1970 and has been stable at 125 % since 1992 (d'Yvoire, 2005, p. 10). Until the early 1990s, companies could also pay supplementary contributions into the AGIRC/ARRCO schemes in order to top-up their employees' retirement income. However, this option has been phased out since 1993 (Reynaud, 1997, pp. 86-88), given that AGIRC and ARRCO institutions could be accused of enjoyed a monopoly in a market that could potentially be penetrated by insurance companies or mutual societies and, therefore, of being in breach of EU competition rules. It was decided simultaneously that the commercial activities of AGIRC/ARRCO pension institutions in other areas of supplementary social protection (such as retirement savings, complementary health insurance, etc.) had to be operated in distinctive administrative entities called "provident institutions" ("institutions de prévoyance").

The responsibility for the financial governance of AGIRC and ARRCO lies with representatives of trade unions and employers' associations who have the ability to change the different parameters that determine the financial equilibrium of the system. The social partners have been using this capacity, notably by raising contributions and by changing indexation mechanisms. Efforts have also been made to generate annual surpluses, which are invested in financial products and will be used to deal with future imbalances due to ageing. Moreover, changes have been introduced in the administrative governance of both schemes in order to bring down management costs and centralise control over the schemes' finances.

<table>
<tr><th></th><th>Below ceiling</th><th>Up to three times ceiling</th><th>Up to eight times ceiling</th></tr>
<tr><td rowspan="3">Non-executives</td><td>Régime général
Employee: 6.65%
Employer: 8.3%
Total: 14.95 %</td><td></td><td></td></tr>
<tr><td colspan="3">Régime général
Employer: + 1.6% (without ceiling)
Employee: + 0.1% (without ceiling)</td></tr>
<tr><td>ARRCO
Employee: 2.4%
Employer: 3.6%
Calling rate: 125%
Effective rate: 7.5%
+2%*</td><td>ARRCO
Employee: 6.4%
Employer: 9.6%
Calling rate: 125%
Effective rate: 20%
+2.20%*</td><td></td></tr>
<tr><th></th><th>Below ceiling</th><th>Up to four times ceiling</th><th>Up to eight times ceiling</th></tr>
<tr><td rowspan="3">Executives</td><td>Régime général
Employee: 6.65%
Employer: 8.3%
Total: 14.95 %</td><td></td><td></td></tr>
<tr><td colspan="3">Régime général
Employer: + 1.6% (without ceiling)
Employee: + 0.1% (without ceiling)</td></tr>
<tr><td>ARRCO
Employee: 2.4%
Employer: 3.6%
Calling rate: 125%
Effective rate: 7.5%
+2%*
+ 0.35%**</td><td>AGIRC
Employee: 6%
Employer: 10%
Calling rate: 125%
Effective rate: 20%
+2.20%*
+0.35%**</td><td>AGIRC
Employee: 6%
Employer: 10%
Calling rate: 125%
Effective rate: 20%

+0.35%**</td></tr>
</table>

Table 5 Contribution rates in first pillar and second pillar wage-earners' schemes

Notes: the ceiling in 2008 is 2773 EUR per month
**special contribution destined to finance retirement before the age of 65*
***Special Temporary contribution*

Sources: Adapted from Legros (2006) and from URSSAF as well as AGIRC-ARRCO websites (Feb. 2008)

Who governs? Who decides? Who manages?

Wage-earners' PAYG supplementary schemes have a two-level governance system. They are administered at the local level by autonomous supplementary pension institutions and at the national level by the ARRCO and AGIRC federations. Both the pension institutions and the federations are supervised by the social partners. The administrative governance of the schemes has been undergoing considerable changes in the last decade. Firstly, regulation has been harmonised within the ARRCO system since the beginning of the nineties. Secondly, there has been an increased cooperation between ARRCO and AGIRC, which results in a wave of mergers between the paritarian[19] pension institutions.

When AGIRC and ARRCO were established by collective agreements in 1947 and in 1961 respectively, they inherited an already elaborate network of various occupational schemes. Both agreements aimed at extending supplementary pensions to other categories of workers and the "points" technique was adopted from the outset in both systems. However, while rules concerning eligibility criteria, contributions levels as well as benefit levels were unified in the AGIRC scheme[20], they remained relatively diverse in the ARRCO system. Each pension institution was thus allowed to set its own parameters, although the ARRCO federation imposed set minimum standards so as to be able to fulfil the function of a clearing house between the different pension funds. Moreover, some supplementary schemes continued to operate outside of the AGIRC-ARRCO system, but they have been gradually integrated into it since the early nineties (See, for instance, developments in the banking sector – section 4.5). In 1996, the social partners signed an agreement that led to the harmonisation of rules in ARRCO from 1999 and a centralisation of decision-making at the federation level. At the time, the ARRCO was composed of 45 different schemes that were managed by 90 different pension institutions. The AGIRC scheme was administered by 55 different funds.

In addition to the changes made in ARRCO, the social partners have encouraged a more effective cooperation between the two wage-earners' schemes and a rationalisation in their administrative governance. These developments are partly due to pressures coming from the European Union and partly due to a commitment to bring down management costs. In November 1998, the social partners agreed to comply with Regulation (EEC) 1408/71, which organises social protection for migrant workers within the European Union. This decision means that both AGIRC and ARRCO have to implement a set of rules that normally apply to statutory schemes, even though they remain controlled by the social partners. It also means that they cannot be considered as potential competitors in the European market for supplementary pensions and, as a result, that they will not be subject to anti-trust regulation. Nevertheless, it means that the pension institutions' commercial activities in the field of supplementary social protection must be kept separate from their 'quasi-statutory' activities. These new demands as well as an emerging effort to cut administrative costs have led the social partners to foster cooperation between ARRCO and AGIRC from 2001. A common IT framework has been established and regulation within both institutions as well as administrative procedures used when dealing with firms have been harmonised. Finally, the paritarian pension institutions have been encouraged to create clusters that comprise at least one AGIRC fund and one ARRCO fund.

By 2008, 28 clusters have been constituted. AGIRC funds have merged into 21 institutions, while ARRCO funds have been grouped into 33 different institutions. These clusters have been building common information and management systems, and should result in the creation of fully integrated 'paritarian groups'[21] (La Tribune de l'Assurance, 2006; Laigre and Langlois, 2006). Besides reducing administrative costs in the mandatory PAYG schemes, the creation of strong groups of paritarian institutions also serves the purpose of promoting the creation of a 'competitive paritarianism' (*'paritarisme concurrentiel'*)[22] that will enable their commercial branches (the so-called "provident institutions"[23]) to compete with insurance companies and mutual aid societies in the emerging market of private supplementary social protection[24].

Gradually overcoming the taboo: The institutionalisation of a funded third pillar

Since the Second World War, French old-age pensions have overwhelmingly been financed on a pay-as-you-go basis. Statutory and supplementary pension schemes have traditionally offered benefits that give a replacement rate of roughly 70% to 75%, funded pensions have been used mainly as a means to top up retirement income. Given the high degree of occupational fragmentation within statutory pension schemes and therefore divergent needs among different categories of workers, the development of funded pensions has also been characterised by a very high degree of decentralisation and, therefore, by multiple governance structures. Until the 1990s, funded schemes were established spontaneously for a limited number of occupational categories and did not operate under a unified regulatory framework. Public sector employees have traditionally had the widest access to voluntary DC pension savings plans. The *CREF*[25] was created primarily for state school teachers as early as in 1947. Hospital staff can join the *CRH*[26] since 1963. Trade unions in the public sector established the *PREFON*[27] in 1967 for all public sector employees. Finally, locally elected officials created their own pension funds *FONPEL*[28] and *CAREL*[29] in 1993. State intervention was necessary to promote the creation of special voluntary schemes for farmers ("Exploitants agricoles" contracts – ex-*COREVA*[30]) and for the self-employed ("Madelin" contracts).

Wage-earners in the private sector have historically had a more limited access to funded pension plans. Occupational pensions have been provided almost exclusively at the firm level, as collective bargaining is highly decentralised. The main forms of company pension plans have been mandatory DB pensions (*art. 39 CGI*[31]) as well as mandatory DC pensions (*art. 83 CGI*). The Fillon reform has also introduced the possibility of setting up occupational DC pension schemes with voluntary participation (*PERCO*[32]). Until 2003, France had no stable legislation concerning individual savings plans which would be intended exclusively for pension savings and that would be available to all individuals, particularly to wage-earners. The introduction of such financial products was checked because of long-standing opposition coming from left-wing parties and trade unions as well as because of dissensions within the business community, particularly between potential competitors on the private pension market, such as insurers, commercial banks, and mutual aid societies (See Palier, 2003, 2007). Therefore, since the 1980s, the dominant form of voluntary retirement savings among wage-earners of the private sector has been life insurance (Palier, 2007, p. 101), as it offers generous tax incentives and relatively high rates of return. In 2003-2004, 35% of French households had subscribed to a life insurance contract and 27% of them declared that they had done so to better prepare their retirement (DREES, 2006b). It was only in 2003 that the government introduced the first retirement savings product that is available to all categories of workers (*PERP*[33]).

Who is covered?

Wage-earners in the private sector can participate in three types of occupational – overwhelmingly company-level – pension schemes: mandatory DB schemes ("*art. 39*"), mandatory DC schemes ("*art. 83*") as well as voluntary DC schemes ("*PERCO*"). *Art. 39* schemes have been generally offered to a limited number of senior managers employed in large companies[34] as a top-up to mandatory PAYG pensions. At retirement, top executives – who are very frequently in the highest income brackets – face a sharp decline in their income, as the benefits provided to them by the *régime général* and *ARRCO/AGIRC* often attain a wage replacement rate of only 25%-35%. Thus, such DB schemes have been pervasive in major firms such as CAC 40 companies, as they are considered a useful HR tool that helps improve recruitment and retention of highly skilled workforce. Some firms, such as Saint-Gobain, Elf-Aquitaine (See Quillet, 1997), Usinor-Sacilor, Rhodia, Rhône-Poulenc or insurance companies offered *art. 39* final salary schemes to a larger number of workers than just management staff, until the mid-90s. However, due to changing accounting standards and the necessity to incorporate pension liabilities into company accounts, many of the schemes with wider coverage have been closed to new entrants and replaced by *art. 83* pension plans (Les Echos, 2005a). Such mandatory DC schemes cover a much wider number of wage-earners, as they are generally accessible to a much larger pool of employees in the companies that provide them. Therefore, *art. 83* schemes are the most prevalent form of occupational pensions. The insurance sector scheme (see section 4.5), the only mandatory funded pension scheme that has been negotiated at the industry level in France and which covers about 130,000 people, is an *art. 83* plan. In total, approximately 2,700,000 to 2,800,000 workers were covered by mandatory DC plans in 2006, compared with 2,300,000 to 2,500,000 people in 2005 (DREES, 2008, p. 3) and 2,200,000 in 2004 (DREES, 2006b, p. 3). Beneficiaries of *art. 83* schemes are generally workers with a stable employment history, as these schemes are usually accessible after a minimum length of service in the company (e.g. 12 months).

Beneficiaries	**Coverage* (in millions)**	**Occupational pension form**	**Initiators (and year of enactment)**	**Sponsors (and financing mode)**	**Managers**	**Overseers**	**Benefit type**
Wage-earners of the private sector	Contrib.: 18** Benef.: 11.3**	*ARRCO*	Collective agreement (1961) extended by the state	Employers and employees (contributions)	1. "paritarian" institutions 2. *ARRCO*	Bipartite supervisory boards (in 1. and 2.)	"points" scheme
Managers of the private sector	Contrib.: 3.73** Benef.: 2.17**	*AGIRC*	Collective agreement (1947) extended by the state	Employers and employees (contributions)	1. "paritarian" institutions 2. *AGIRC*	Bipartite supervisory boards (in 1. and 2.)	"points" scheme
Wage-earners of the public sector without tenure	Contrib.: 2.5 Benef.: 1.65	*IRCANTEC*	State (1970)	State as employer and employees (contributions)	*IRCANTEC and Caisse des Dépôts (CDC)*	Bipartite supervisory board	"points" scheme
Civil servants (all categories) and the military	Contrib.: 4.4 Benef.: 0.09	*Régime Additionnel de la Fonction Publique (RAFP)*	State (2003)	State as employer and employees (contributions on bonuses)	*Etablissement de RAFP and Caisse des Dépôts (CDC)*	Bipartite supervisory board	"points" scheme
Self-employed farmers	Contrib.: 0.53 Benef.: 0.45	*Régime de retraite complémentaire obligatoire*	State (2002)	The insured (contributions) and the state (subsidies)	*Mutualité sociale agricole*	Supervisory board (members = representatives of the insured)	"points" scheme
Craftsmen	Contrib.: 1.36 Benef.: 0.96	*Régime de retraite complémentaire obligatoire*	State (1978/ reformed and merged with tradesmen's scheme in 2003)	The insured (contributions) and the state (subsidies)	*Régime social des indépendants*	Supervisory board (members = representatives of the insured)	"points" scheme
Tradesmen and manufacturers			State (2003)				

Table 6 Funded occupational schemes (retraite professionnelle supplémentaire)

*Notes: *Coverage defined as number of people who contribute to a scheme. Data on coverage indicated for the end of 2007 (DREES, 2009). ACAM = Autorité de Contrôle des Assurances et des Mutuelles (Insurance and Mutual aid societies Supervisory Authority).*

Source: Sénat (2006), DREES (2009)

Contrary to *art. 39* and *art. 83* plans which can be offered to a limited group of workers in the company, voluntary DC schemes (*PERCO*) must legally cover all employees of a company or of a branch. Moreover, PERCOs are in principle more accessible to atypical workers: the maximum length of service after which a worker is allowed to join the pension plan is 3 months. PERCOs were created in 2004 and their development was relatively slow at the beginning, as collective agreements had first to be negotiated at the firm or at the inter-firm level. However, the number of companies offering such plans is steadily growing (37,000 companies at the end of 2006 compared to 23,000 at the end of 2005). Access to these schemes is highest for people who work in very large companies[35] and is marginal in SMEs[36], although very small companies[37] have shown relatively more interest for this product as directors of such companies are exceptionally allowed to put their savings in such plans. Given their voluntary character, only 102,000 people contributed to a *PERCO* plan in 2005, a number which increased to 201,000 in 2006[38].

PERP, the newly created individual retirement savings plan, is the only pension product that is available to all categories of workers (private-sector wage-earners, public sector employees, the self-employed and farmers). During the two years that followed its creation, PERP rapidly attracted a high number of subscribers: 1.2 million people in 2004, followed by another 0.5 million at the end of 2005. However, this growth rate has been declining ever since, as the product attracted only 211,000 and 130,000 new subscribers in 2006 and 2007 respectively. Thus, at the end of 2007, PERP counts approximately 1.99 million people contributors and only 1000 beneficiaries. Sign-up rates among PERP's target population (i.e. wage-earners) are estimated at 8.6% (FFSA, 2008). In terms of gender, PERP is the individual retirement savings product that attracts the most equal population, as 47% of its subscribers are women, while they represent only 40% of subscribers to PERCO and 38% to Madelin contracts[39] (DREES, 2008, p. 6).

What kind of benefits?

Funded supplementary pensions still represent a very minor part of pension expenditure in France. In 2006, only 4.2 billion euros were spent on pension annuities (less than 2% of total pension expenditure)[40]. 48% of all such benefits were paid as part of a defined-benefit scheme (DREES, 2008a). French companies offer two types of *art. 39* DB pension plans: "*retraites chapeau*" and "*retraites additives*". In the first type of schemes, the company commits itself to provide a guaranteed replacement rate (e.g. 50%-70% of the last wage[41]), by paying the difference between the pensions offered by the statutory and ARRCO/AGIRC schemes and that replacement rate. In the case of an "additive" pension, the company generally guarantees a lower replacement rate (e.g. 10% of the last wage or 1% of the last wage per year of service in the company). However, it does so regardless of the benefit amount received by the employee from mandatory PAYG schemes. DB pensions provided to senior executive staff in large companies are generally calculated on the basis of the wages earned during the very last years of their career (e.g. last two years at Dexia[42] or last three years at France Telecom[43]). This means that benefit levels may be very high[44]. Since increases in life expectancy, as well as decreases in benefits provided by the *régime général* and by ARRCO/AGIRC, multiply the costs associated with "chapeau" schemes, companies are increasingly transforming them into "additive" schemes (e.g. BNP Paribas). Given that the objective of company-level DB plans is to develop staff loyalty, *art. 39* schemes do not have to guarantee vesting of rights. Therefore, in order to get their benefit, employees must generally be employed by the company at retirement.

Contrary to *art. 39* schemes, vesting is automatic in DC pension plans (*art. 83*, *PERCO* and *PERP*). Benefit levels are entirely determined by the level of contributions that have been paid into the scheme as well as by the investment performance achieved by the pension manager. In the case of mandatory occupational DC schemes (*art. 83*), the level of contributions depends on the number of years in which the employee has been working in the company and on his past earnings. In the case of voluntary DC schemes (PERCO, PERP), it depends entirely on the individual decisions of the savers[45]. These plans exclude any element of interpersonal solidarity. However, *art. 83* schemes often grant credits for non-contributory periods such as illness, maternity or parental leave. Indexation of benefits can either be guaranteed by contract (at 2.5% for example) or it can be a function of the fund's performance.

DC pensions are in general paid in the form of a lifetime annuity[46]. However, in the case of PERCO, collective agreements may open up the possibility for the insured to choose between a lump-sum payment and periodic instalments. In principle, sums paid into DC schemes cannot be withdrawn before retirement age. Nevertheless, legislation allows early exit in a few exceptional cases: if the beneficiary becomes an invalid, or if he or she loses unemployment insurance benefits. PERP and PERCO also allow early withdrawals in case of excessive debt or if the insured buy their main home. Transfers of contributions paid into one DC plan to another are possible, but the insured are then liable to pay transfer costs.

Who pays?

While all DC plans are funded[47], the financing of *art. 39* final salary schemes was not regulated until the mid-nineties. In fact, company-level pension plans could operate on a pay-as-you-go basis, but this mode of financing was forbidden in 1994[48]. *Art. 39* pension plans must be either fully-funded or financed through book reserves on company balance sheets. The implementation of these regulations was not entirely effective and has been strengthened by the 2003 Fillon reform as well as by the introduction of the new IFRS accounting standards. Since as a result of these regulatory changes many company plans found themselves in deficit and since book reserves are subject to an unfavourable tax regime[49], *art. 39* plans are increasingly being financed through group insurance contracts signed with insurance companies or with provident institutions (Les Echos, 2005b). Such DB schemes are always financed exclusively by employer contributions. *Art. 83* schemes are necessarily financed by employer contributions and may be financed by employee contributions, especially when the plan is set up through a collective agreement[50]. Voluntary contributions to *art. 83* are not allowed. However, the Fillon reform has sought to allow for such an option by introducing the *PERE* (*Plan d'épargne-retraite d'entreprise*), a product that is similar to *art. 83* schemes in all respects, apart from that one.

Nevertheless, the schemes exclusively based on voluntary contributions are the *PERCO*, the *PERP* and public-sector pension funds. In these plans, the decision to put money aside lies entirely in the hands of individuals: contributions must come from their own savings[51]. Of all individual savings accounts, the *PERCO* is the most peculiar one, as it most strongly combines the characteristics of a personal pension plan with those of an occupational one. Given that these schemes are established at the firm level, contributions may come not only from individual savings, but also from profit sharing schemes[52] as well as from employees' "working time savings accounts"[53]. Contrary to *PERP* or public-sector schemes in which contribution amounts are in principle unlimited, annual contributions to *PERCO* cannot exceed one fourth of the worker's gross pay for the year. Another specificity of *PERCO* is that employers must cover management fees and, as in U.S. 401(k) accounts, they may offer matching contributions on their employees' payments into the scheme. Such employer matching contributions may be set, in relative terms, at a maximum of 300% of the employees' voluntary contributions and, in absolute terms, at max. 16% of one annual social security ceiling[54]. The level of employer matching contributions is always established through collective agreement and may be differentiated according to the origin of contributions (individual savings, profit sharing schemes, working time savings accounts) or according to characteristics such as the worker's length of service in the company or his or her occupational category.

	Company	**Individual**
art. 83, art. 39	global contribution to occupational pension schemes is exempted from corporate income tax up to 8% of a sum equal to 8 times the ASSC* (i.e. max. 21,296 euros in 2008)	global contribution to supplementary (occupational and individual) pension plans is exempted from personal income tax up to 10% of taxable income (with max. 8% of a sum equal to 8 times the ASSC* - i.e. max. 21,296 euros in 2008)
PERCO	employer matching contributions are tax exempted	- Employer matching contributions are totally exempted from personal income tax - Contributions coming from profit sharing schemes are exempted from personal income tax up to 8% of a sum equal to 8 times the ASSC* (i.e. max. 21,296 euros in 2008) - no tax relief for contributions from individual's own savings - all contributions are subjected to CSG and CRDS
PERP, PREFON, Madelin, exploitant agricoles	Not applicable	global contribution to supplementary (occupational and individual) pension plans is exempted from personal income tax up to 10% of taxable income (with max. 8% of a sum equal to 8 times the ASSC* - i.e. max. 21,296 euros in 2008)

Table 7 Tax incentives

*Notes: *the ASSC (annual social security ceiling) was set at 33,276 EUR in 2008*

Sources: Sénat (2008)

Former employees can continue to contribute to their *PERCO* if they do not have access to one in their new company. However, they cannot benefit from employer matching contributions and must pay themselves to cover management fees.

In order to promote occupational and individual pensions, governments have put in place tax incentives for both employers and savers. The global contribution to supplementary schemes[55] may be exempted from corporate income tax, while contributions to *régime général* and to *AGIRC*/ARRC*O* are totally tax-exempt. Moreover, employers are exempted from paying social security contributions on employer contributions to supplementary schemes up to 5% of one annual social security ceiling[56]. The total amount of revenue uncollected by the social security system due to such exemptions was estimated at 2.9 billion euros in 2005 (Assemblée Nationale, 2008, pp. 159-160). Savers benefit from an EET (Exempt, exempt, tax) tax regime. *PERCO* has a different tax regime, as individual savings put into the scheme are not tax-exempt and no income tax has to be paid at exit if the individual decides to have his or her pension paid in the form of a lump sum.

Who governs? Who decides? Who manages?

Because of the decentralised nature of funded schemes in France, governance structures vary widely between different schemes. In firm-level mandatory schemes, beneficiaries have little to say about the choice of products in which their savings are invested. All these choices are made by the pension manager and are supervised either by the employer himself or by a bipartite supervisory board. The organisation of these schemes most often depends on how they were initiated. Art. 39 and art. 83 plans can be established through three possible channels: a unilateral decision of the employer, a proposal of the employer put to a referendum or a collective agreement. Art. 39 DB schemes that cover senior management staff are almost always created through the first channel and are therefore usually overseen by the company's board of directors, which leaves no room for trade union control. These schemes are managed either by the company itself (book reserves) or by an insurance company (through a group insurance contract).

As the more encompassing art. 39 DB schemes (see sections 4.1 and 4.5) were generally established through collective agreements, they were managed by specific paritarian institutions and were financed on a PAYG basis. However, due to the restrictions imposed on this mode of financing, the governance of these schemes has been profoundly modified in recent years. The paritarian institutions that managed them have been transformed into supervisory boards57, while the day-to-day running of the schemes has been increasingly delegated to insurance companies or to "provident institutions" (i.e. the commercial branches of the ARRCO/AGIRC paritarian institutions). Delegation of management is also very often the rule in art. 83 DC schemes. However, a few companies (for instance, Société Générale and Nestlé) have established their own "provident institutions", supervised by bipartite boards. In this type of plans, the employer and trade unions have in principle much larger decision-making powers concerning the running of the pension plan.

However, it remains unclear whether their role is more decisive in key investment decisions than in plans whose management is delegated to an insurance company or another provident institution.

The pension funds that have been introduced by the Fillon reform have a different type of governance. Although PERCO are also occupational pension schemes, they are tightly linked to firm-level workers' participation schemes and to wage-earners savings programmes (épargne salariale). They must always be established through a collective agreement and cannot be established unless a short-term savings plan (plan d'épargne salariale) is also available in the company. As PERCO are voluntary pension plans, the insured are given much more leeway to make their own investment decisions and must be presented with a choice between at least three mutual funds (OPCVM58), so that the insured may diversify their risks. PERCOs can also provide access to firm-level investment funds (Fonds communs de placement d'entreprise), which are allowed to invest part of the collected contributions into company assets.

PERP plans are managed by insurance companies, mutual aid societies or provident institutions. However, they are kept under the supervision of non-profit 'popular pension savings groups' (GERP59) which are independent of the pension manager and in fact initiate the plans by entering into a group insurance contract with a financial company. The GERP's mission is to inform participants about developments in the PERP and to control the pension manager through a supervisory board and an annual general meeting of the insured. The annual general meeting of the insured is responsible for making all necessary modifications in the PERP contract and may also decide to change the pension manager. Although investment choices are more limited than in PERCO, as investment decisions are made by the pension manager, state regulation requires that the savings accumulated by an individual be made more secure the closer the individual is to retirement age60.

Until the late eighties, state supervision of supplementary pensions was limited to controlling insurance companies. However, in 1989, an executive agency – the CCMIP61 - was created in order to monitor mutual aid societies as well as provident institutions that are active in the market for supplementary social protection. As its control powers were limited due to lack of staff, the CCMIP has been merged with the insurance watchdog in 2005, creating the ACAM62. State regulation concerning insolvency protection has also been strengthened in recent years. An insolvency fund was created for life insurance companies63 in 1999. Provident institutions have been running their own fund64 since 2003. Both funds are financed through contributions of the participating companies and insure savers' assets up to a maximum of 70,000 euros. Although the creation of a similar fund for mutual aid societies was officially legislated in 2001, the decrees that are needed to ensure the implementation of the measure had not yet been published in 2008. However, the French federation of mutual aid societies65, an organisation which represents a majority of mutual aid societies, has been operating its own guarantee fund66 since 2002. To date, defined-benefit pensions that are financed through book reserves are not protected against insolvency.

Case studies: the changing governance of supplementary pensions in the insurance sector and in the banking sector

Developments in the insurance and in the banking sector illustrate the profound transformations that French supplementary pensions have been undergoing in the last two decades: further integration and harmonisation of all supplementary PAYG schemes within the ARRCO/AGIRC framework, closure of "chapeau" schemes to new entrants and development of employer-provided *art. 83* DC plans.

Supplementary pensions in the insurance sector

Similarly to most private sector firms, insurance companies have been participating to the ARRCO/AGIRC pension schemes since their inception. However, in 1978, insurers instituted their own private defined-benefit pension plan, which covered all employees in the industry[67] and was financed on a pay-as-you-go basis. At the early nineties, a number of events put increasing strains on the functioning of the scheme. First, the 1993 ARRCO collective agreement planned a gradual increase – from 4% in 1995 to 6% in 1999 – in the 'contractual rate' (see p. 21) of contributions. Second, a statute promulgated in 1994 forced occupational pension schemes to switch gradually from PAYG financing to full funding or funding through book reserves. Third, the scheme was weakened by the fact that its risk pool was limited to only 150,000 contributors and pensioners. At the insistence of the Federation of French insurers[68], trade unions signed a collective agreement that provided for the closure of the "chapeau" scheme to new entrants from 1996. The scheme's reserves[69] as well as supplementary assets[70] provided by the participating insurance companies were transferred to an insurance company – the *SACRA*[71] - that was created for the sole purpose of managing existing and future beneficiaries' acquired rights. This fund is supervised by a board[72] composed of 4 representatives of insurance companies and 4 representatives of the industry's trade unions (La Tribune de l'Assurance, 2001).

As a compensation for the loss of these industry-level privileges, but also in an attempt to flout the political taboo that surrounded funded pensions in France in the early nineties, insurers pushed for the creation of the first sector-level funded DC scheme in France. Despite being delayed by the trade unions' opposition to the project[73] and by uncertainty concerning legislation on pension funds[74], the scheme was set up in 1999. The insurers' pension fund is financed by employer contributions set at 1% of gross wage, which continue to be paid in case of illness or maternity. The scheme is managed by a consortium of insurance companies – the BCAC[75] – which is supervised by a bipartite board. Although firms were given the possibility to opt out of the scheme if they were willing to set up a more advantageous one, most companies of the sector decided to join it, including state-owned companies that were privatised at the beginning of the nineties[76]. As a result, the insurers' pension plan covers a large majority of insurance companies' employees on condition that they fulfil the seniority criteria (See appendix 1).

After the industry-level fund was officially launched, companies started to create their own firm-level pension schemes. In 1999, Axa instituted two new pension plans for all its employees: one *art. 83* plan and one *art. 39* plan (see appendix 1). The *art.*

83 DC plan is financed by employer as well as by employee contributions. Contributions start to be paid once the worker has been employed for 12 months. The *art. 39* DB plan is an "additive" scheme and offers 4% of the average gross salary of the 5 years preceding retirement. This scheme is offered only to employees who have a length of service of at least 15 years and who are employed by the company at retirement. A PERCO plan has been added in 2005. Similar developments have been witnessed at AGF. This company, which was state-owned until 1996 and had as a consequence a separate occupational DB plan, closed its "retraite chapeau" in the mid-nineties and joined the newly created industry-level DC plan. However, in July 2005, a collective agreement was signed with trade unions in order to create a supplementary company pension plan. One tier is offered by a compulsory DC scheme (*art. 83*) financed by employee contributions (1%) as well employer contributions (2%). The funds are managed by AGF Asset Management. The second tier of AGF's supplementary pension plan is constituted by a PERCO. AGF is also remarkable in that it closed the *art. 39* DB pension scheme that catered for its senior executive staff in 2005[77], that is at a time when the company was being absorbed by Allianz group.

Supplementary pensions in the banking sector

After the Second World War, supplementary pensions in the banking sector were not integrated with the ARRCO/AGIRC system, despite the fact that they were financed on a PAYG basis. Banks offered a DB "chapeau" pension, with benefits calculated on the basis of the wage at retirement. The system was managed by 14 independent firm-level pension institutions as well as by a multi-employer one[78] whose risk pools differed very widely from each other. However, from the mid-1980s, the number of pensioners increased very sharply in the sector, as companies had hired new employees on a very large scale during the 1960s and the 1970s. The demographic imbalances in the industry were projected to worsen during the following years. As a result, the social partners negotiated a reform of the system through a collective agreement signed in 1993. In order to assure the financial sustainability of pensions in the sector, they decided to incorporate the company schemes into the ARRCO/AGIRC framework. However, it was also decided that the differential between the pension offered by standard private sector schemes and the banking sector scheme[79] would not continue to be provided to new entrants to the industry.

A "banking top-up" (*complément bancaire*), financed by employer contributions, was granted to all existing pensioners as well as to all the people who had been employed in the banking sector for at least 15 years at the time the collective agreement was signed. This pension supplement, whose level is nevertheless lower than it used to be due to ungenerous indexation (Les Echos, 2004), is financed by what remains of the firm-level pension institutions that managed the banking supplementary schemes. These institutions have been de facto transformed into managers of *art. 39* schemes[80] and, by the same token, they have been forced to accumulate sufficient assets to cover current and future liabilities. For instance, at BNP Paribas, the former "Caisse de retraite BNP" closed in 2006 and all remaining liabilities are financed through the company's book reserves, while liabilities of the

"Caisse de retraite Paribas" are covered through a group insurance agreement signed in 2007. However, in order to partly counterbalance the loss of retirement income incurred by younger and new bank employees, many banks (including HSBC France or Banques Populaires) have set up mandatory defined-contribution schemes that cover most workers in the companies. At Société Générale, an *art. 83* plan has been established through a collective agreement signed in 1995 (Palsky, 1997). The scheme is managed by an *ad hoc* provident institution[81] that is supervised by a bipartite board. Employee contributions are set at 0.5% of gross salary[82], whereas employer contributions are set at about 1%. In 2006, 46,300 active workers were contributing to the scheme, while 7,300 pensioners were already drawing benefits (Société Générale, 2007, p. 14). BNP Paribas has also been offering an *art. 83* DC scheme since 1997. The contribution rate is are set at 1% of the reference wage which is calculated up to a maximum of 110% of the social security ceiling. The plan which is managed by Malakoff Médéric, a provident institution, has been transformed into a *PERE* (see section 4.3 of this chapter) in 2006, thus allowing employees to pay voluntary contributions on top of the compulsory ones. Since the Fillon reform, both BNP Paribas and Société Générale have also set up PERCOs whose funds are managed by the banks themselves.

The outlook for the French pension system

Funded pensions have traditionally been a delicate question in French politics. In official rhetoric, politicians have emphasised their commitment to maintain pay-as-you-go financing of pensions as a central part of the social contract. However, by successfully framing reforms as attempts to 'consolidate' the existing pension and thanks to a skilful sequencing of reforms, successive governments have been able to modify the system in such a way that the balance is tilting towards a greater use of funded pensions. The numerous increases in the length of contribution that is required to get a full statutory pension promote a tighter link between contributions and benefits, and will result in a very probable decrease in benefit levels in the future (COR, 2006, 2007a). This trend is reinforced by the changes that have been made by the social partners in the indexation of ARRCO and AGIRC benefits. The 2003 Fillon reform has given clear signals that policy-makers expect that younger workers will increasingly put money in voluntary retirement savings plans. One such signal is sent by the creation of the PERP and the PERCO. A second signal is made by the introduction of a "right to information" that aims at allowing workers to make informed decisions about their retirement. Since July 2007, different age cohorts have been regularly receiving information sheets which show the pension rights they have accrued in the different compulsory pension schemes as well as simulations of their future benefits.

Since 2006, the reform agenda has been increasingly shifting towards the promotion of longer working lives among elderly workers. A series of measures have been taken to decrease the role played by public and private early retirement programmes. Incentives to work longer are also being extended. However, as France continues to have very low employment rates among this category of the population, the idea of increasing the retirement age has become increasingly popular within France's main employer association, MEDEF. This organisation argues that, in order to raise employment rates among the elderly, it is necessary not only to curb the use of early retirement programmes or to increase the contribution length, but also to raise the legal retirement age from 60 years to 62 or even 63.5. MEDEF argues that such a measure would have an unequivocally positive effect on employment rates among the elderly, as it would change workers' and companies' expectations and thus provide an incentive for companies to invest more in elderly workers. The employers' association officially asked for an increase in the age from which a full pension can be drawn, during the 2009 ARRCO and AGIRC negotiation, but the trade unions opposed the demand. However, the issue was raised again during the 2010 negotiation on a reform of statutory pension schemes and a rise in the retirement age seemed to receive increasing support from the right-wing Fillon government.

In the future, the agenda should also focus on the pension rights of the increasingly numerous 'atypical' workers. The French labour market is characterised by a considerable degree of dualisation, with some workers enjoying high employment protection and good salaries, while others are cornered in sectors marked by high job instability and low levels of pay. This situation means that a wide group of workers are at a double disadvantage in terms of access to adequate pensions. First, job instability affects workers' contribution records and therefore the benefit levels that they can expect from the statutory and ARRCO-AGIRC schemes. Second, it also affects workers' access to private pension benefits, which are supposed to compensate for diminished replacement rates in public schemes. Workers employed on fixed-term contracts or in unstable jobs are not covered by employer-sponsored pension schemes, as they cannot reach the minimum length of service that is required to benefit from firm-level plans. Moreover, even if they are properly informed about their future benefit levels, they may not have the capacity to save themselves for their pension. Such workers may in fact prefer to ensure that their savings are liquid enough, so that they can use them in case of unemployment.

This also raises the question of the appropriateness of a strategy based on the promotion of voluntary pension savings as the main compensation for the decrease in public pensions. If inequalities in terms of access to funded pensions are to be decreased, more emphasis should be put on the promotion of more encompassing occupational schemes. The traditionally conflict-ridden relationship between French social partners and the weakness of unions' organisational capacities at the enterprise level do not currently provide fertile ground for the expansion of mandatory funded occupational schemes. Therefore, a widening of coverage by occupational pensions will depend on the way the industrial relations system will evolve in coming years.

[1] This research was partially financed by the German National Science Foundation's project (EB 434/1-1) 'Governance of Supplementary Pensions in France (GOSPE). We are grateful to the participants of the GOSPE workshops in Mannheim, particularly Bernhard Ebbinghaus and Silja Häusermann, and to an anonymous reviewer for valuable comments.

[2] *minimum-vieillesse* and, since 2007, *allocation de solidarité aux personnes âgées*

[3] After the Second World War, representatives of a new type of middle-class – i.e. management staff in private companies (the '*cadres*') were discontented with their incorporation into the *régime general*. This occupational category was able to negotiate through a collective agreement the establishment of a supplementary PAYG pension scheme based on the points technique which would top up their statutory benefits (Boltanski, 1982; Friot, 1994; Reynaud, 1997). The *AGIRC*, which supervises and clears the participating pension funds and mutual aid societies, was thus founded in 1947. From 1956, different companies and sectors created similar supplementary PAYG points schemes for other categories of employees and workers. In order to strengthen coordination between these multiple schemes and to improve coverage, the social partners established national federations inspired from the AGIRC: the *UNIRS*[3] in 1957 and the *ARRCO* in 1961. The latter collective agreement was extended by the state to all sectors encompassed by the main employers' association (*CNPF*) in 1962. In 1972, the state made participation to the ARRCO and AGIRC schemes compulsory for all firms.

[4] The contribution period has been increased from from 37.5 to 40 years in the civil servants' pensions schemes (*Régime des Agents de l'Etat* and *CNRACL*), by the 2003 *Fillon* reform. The contribution period will be increased to 40 years in other public sector schemes, if the recent reform of *régimes spéciaux* is effectively implemented.

[5] 1.7 million people at the end of 2005 (compared to 1.2 million at the end of 2004, i.e. a 35% growth rate in one year) according to a study carried out by the DREES (2007).

[6] If we analyze changes in the composition of the assets held by French households, we see that the part played by savings intended for retirement (life insurance and retirement pension savings proper) increased during the 1990s. While only 31% of French households had such assets in 1986, 46.6% did in 2000 (INSEE, 2001, Tableaux de l'économie française, p. 119).

[7] *Fonds de solidarité vieillesse* (FSV)

[8] The civil servants' new scheme has been named *Retraite Additionnelle de la Fonction Publique* and is administered by the state. The farmers' supplementary pension scheme is managed by the *Mutualité Sociale Agricole*, while the second pillar for the self-employed is managed by the *Régime social des indépendants* (See Table X.1). All these schemes are financed by contributions.

[9] *Institution de Retraite Complémentaire des Agents Non Titulaires de l'État et des Collectivités Publiques*

[10] The pension benefit *P* is equal to the number of pension points acquired during the working period multiplied by the "pension point value" *PV*. Pension points are calculated by multiplying the reference wage *W* by the contribution rate *CR* and by dividing these two elements by a "price of the point" *PP* whose value is changed regularly by AGIRC and ARRCO. The full pension is obtained at age 60, but benefits can be drawn from age 55 by applying a "reduction coefficient" *RC*, which depends on the retirement age and the total contribution period. The benefit formula can thus be represented as follows (See Bozio, 2006, p. 69 and Legros, 2006, pp. 205-206):

$$P = \left(\Sigma \frac{(W * CR)}{PP} \right) * PV * RC(\text{age, contribution period})$$

[11] In the ARRCO scheme, the surviving spouse receives a pension that is equal to 60% of the pension received by the deceased beneficiary. The surviving spouse must be at least 55 years old unless he or she has two children in his or her care or he or she is disabled. Orphaned children can have a allowance that is calculated on the basis of 50% of the points earned (Dupeyroux et al., 2005, p. 1068). In the AGIRC scheme,

the surviving spouse receives a pension that can vary between 52% and 60% of the pension received by the deceased beneficiary. The surviving spouse must be at least 60 years old unless he or she has two children in his or her care or he or she is disabled. Orphaned children can have a allowance that is calculated on the basis of 30% of the points earned (Dupeyroux et al., 2005, p. 1073).

[12] Beneficiaries having pension entitlements from derived rights (such as survivors' benefits, etc) are not included.

[13] However, it should be noted that 94% of AGIRC beneficiaries were men (DREES, 2008b).

[14] For a detailed presentation of assumptions, see COR, 2006, pp. 277-279

[15] Thus, in total, 83.6% of the last wage.

[16] Thus, in total, 64.1% of the last wage.

[17] i.e. management staff in private sector firms.

[18] 'Cadres' were not affiliated with ARRCO before 1973.

[19] i.e. set up through collective agreements and managed by representatives of employers and employees.

[20] Even though the scheme continued to be managed by a multiplicity of different pension institutions.

[21] '*Groupes paritaires'*

[22] Guillaume Sarkozy – chief representative of Médéric and former vice-president of MEDEF, France's main employers' association – quoted in La Tribune de L'Assurance (2007)

[23] *institutions de prévoyance*

[24] Although from a legal point of view, 'paritarian' institutions (*institutions de retraite complémentaire*) and provident institutions (*institutions de prévoyance*) are regarded as two separate entities, they continue to coexist within the same private 'paritarian' social protection groups (such as *Malakoff-Médéric*, *Novalis*, etc.) whose specificity lies in the fact that they are supervised by the social partners.

[25] *Complément de Retraite de la Fonction Publique* – Civil Service Retirement Supplement

[26] *Complément Retraite des Hospitaliers* – Hospital Staff Retirement Supplement

[27] *Caisse Nationale de Prévoyance de la Fonction Publique* - National Civil Service Provident Society

[28] *Fonds de Pension des Elus Locaux* - Locally Elected Politicians' Pension Fund

[29] *Caisse Autonome de Retraite des Elus Locaux* – Locally Elected Politicians' Autonomous Pension Institution

[30] When it was set up for farmers in 1990, COREVA was managed by the Mutualité sociale agricole (MSA), which is also responsible for the farmers' statutory pension. Due to complaints about the de facto monopoly enjoyed by the MSA, the scheme was proscribed in 1995 by the ECJ and the market was subsequently opened to insurance companies.

[31] *Code Général des Impôts* – General Tax Code

[32] *Plan d'Epargne Retraite Collective* – Collective Retirement Savings Plans

[33] *Plans d'épargne retraite populaire* – Popular Retirement Savings Plans

[34] No data are currently available on total coverage by these schemes, as companies often refuse to divulge information that is considered as strictly confidential, given its strategic importance in HR strategy. However, a recent survey carried out by Hewitt Associates shows that DB schemes are offered to a very limited number of employees, as 77% of companies offered them to fewer than 250 employees. (See http://ec.europa.eu/employment_social/spsi/docs/social_protection/2007/ec_report_final_nov_2007_en.pdf p. 58)

[35] 13% of people working in companies employing 1000 workers or more had access to a PERCO plan in 2006 (DARES 2008, p. 2).

[36] Less than 3% of people working in companies employing less than 250 workers were covered by a PERCO in 2006 (DARES 2008, p. 2).

[37] Those having less than 10 employees.

[38] The level of participation to PERCOs seems to partly correlate with the generosity of employer matching contributions. For example, in 2005, 72.5% of employees put savings in a PERCO at Sanofi Synthelabo – where employer matching contributions were set at 150%, while only 19% of workers employed by L'Oréal participated in their PERCO, as employer matching contributions were set at only 50% (Les Echos 2005).

[39] Subscribers to PERP are also younger than those to other individual pensions. More than 16% of individuals that contribute to a PERP a less than 30 years old, compared to 9% of subscribers to PERCO and 4% of those who contribute to Madelin contracts or to a voluntary public sector scheme. 44% of new subscribers to PERCO are in fact aged 50 or more, which means that this product attracts an older population.

[40] These figures do not include pension expenditures financed through book reserves. 11% of funded benefits were paid as part of DC schemes for the self-employed (Madelin contracts) or for farmers (exploitants agricoles contracts). 12% were paid as part of voluntary public-sector DC scheme (PREFON, CREF, COREM, FONPEL, etc.) and 77% were paid as part of a company-sponsored pension plan (DREES, 2008a)..

[41] This replacement rate may be a function of the employee's length of service in the company.

[42] Dexia Annual Report 2007, p. 46

[43] France Telecom Annual Financial Report 2007, p. 197

[44] In recent years, the "retraites chapeaux" received by CEOs or other senior managers have provoked uproar in the media. The biggest scandal broke when it was revealed, in February 2005, that Daniel Bernard – Carrefour's recently CEO – would get a "retraite-chapeau" with a replacement rate of 40% of his last salary and that the company had covered the liabilities with 29 million euros on its book reserves.

[45] Public sector voluntary DC schemes (PREFON, COREM, CRH, etc.) use the point technique and thus have a slightly different mode of functioning (see part 6.5).

[46] Lump-sum payments are allowed in case of low benefit levels.

[47] The only exception used to be the CREF which was only partially funded, but, since 2002, the newly created COREM is entirely funded (see part 6.5).

[48] Loi Evin du 8 août 1994

[49] Indeed, no tax relief is available for plans financed by book reserves and companies have to pay higher social contribution rates on them.

[50] Contributions rates can be set at different levels according to different wage brackets or the seniority of the employee in the company. Such a differentiation may serve as an HR tool to improve staff retention.

[51] In 2006, the average annual individual contribution was estimated at 530 euros for contributions to PERP and at 1920 euros for contributions to PERCO (employer matching represented approximately one fourth of that sum).

[52] Two types of profit-sharing schemes are available in France. *Participation* is compulsory in companies that employ 50 people or more and has been introduced in 1967. *Intéressement* is optional and was created in 1959.

[53] "Working time savings accounts" allow workers to opt out from working time reduction policies and to earn wages increased by 25% for the foregone free time.

[54] i.e. 5324 EUR in 2008.

[55] art. 39, art. 83 and PERCO altogether

[56] i.e. 1,664 euros in 2008

[57] *Caisses d'Epargne*, which have transformed their DB plan into a provident institution (*institution de prévoyance*) administered by a bipartite board, are an exception to the rule (Les Echos, 2008).

[58] *Organismes de placement collectif en valeurs mobilière*

[59] *Groupement d'épargne retraite populaire*

[60] Two years before retirement age, at least 90% of the invested savings must be guaranteed by the pension manager. Between the two and the five years preceding retirement, at least 80% must be guaranteed, between the five and the ten years that precede retirement, at least 65% must be guaranteed, etc

[61] *Commission de contrôle des mutuelles et des institutions de prévoyance* – loi Evin du 31 décembre 1989

[62] *Autorité de Contrôle des Assurances et des Mutuelles*

[63] *Fonds de garantie des assurés contre la défaillance de sociétés d'assurance de personne*

[64] *Fonds paritaire de garantie des institutions de prévoyance*

[65] *Fédération nationale de la Mutualité française*

[66] *Système Fédéral de Garantie de la FNMF*

[67] The insurance-sector pension scheme originated in fact from the companies' multiple occupational schemes that had been created in 1937-1938.

[68] *Fédération Française des Sociétés d'Assurances*

[69] 3 billion French francs

[70] 11 billion French francs

[71] *Société d'Assurance de Consolidation des Retraites de l'Assurance*

[72] i.e. the CREPPSA (*Caisse de retraite et de prévoyance du personnel des sociétés d'assurances*)

[73] CGT, FO, CFTC and part of CGC opposed the projet and tried to block its implementation by going to court. CFDT was the only union that did not try to obstruct the creation of the scheme.

[74] The Juppé government was at the time planning the introduction of funded pension schemes, and the sector was forced to wait until things were clarified.

[75] *Bureau Commun d'Assurances Collectives* (which also provides supplementary health insurance contracts for employees of the insurance sector)

[76] Particularly UAP and AGF, which, as a result of their nationalised status, ran firm-level DB pension schemes that were separate from the private-sector insurers' plan and closed them at the end of the nineties (*Caisse de Retraite du Personnel de l'Union des Assurances de Paris* as well as *Caisse de retraite du Personnel des AGF*). UAP's "chapeau" scheme offered supplementary benefits set at 2% per year of service with a maximum replacement rate of 70% of the reference salary calculated on the basis of the last three years preceding retirement.

[77] AGF Annual Financial Report 2006, p. 25

[78] The *Caisse de Retraite de la Profession Bancaire* (CRPB), which was responsible for managing small banks' as well as foreign banks' supplementary pension schemes.

[79] Benefits in the banking sector were on average 15% higher than in wage-earner schemes.

[80] More precisely, *institutions de retraite supplémentaire*.

[81] The "*Institution de Prévoyance Valmy*"

[82] up to 2 social security ceilings since 2006 (used to be 4 social security ceilings).

Appendix

	Type of scheme	Operates since	Beneficiar-ies	Participa-tion	DB / DC	Contributions	Benefit formula	Length of service required	Age at which pen-sion can be drawn
Industry-level scheme	*Art. 83*	1999 (but contribu-tions paid for 1996, 1997, 1998)	Employees of all com-panies	Mandatory	DC	- min. 1% employer contribution		12 months for office workers and manag-ers 3 years for lower categories of work-ers	Full pension at 65 years Pension can be drawn earlier with reduced amount
Firm-level schemes	*Art. 39*	1992 (modified in 2005)	Top manag-ers	Mandatory	DB		For a minimum executive seniority of 20 years: — 40% of the AGW of the past 5 years preceding the retirement date, if this average is superior to 12 annual ASSC; — 50% of the AGW of the past 5 years preceding the retirement date, if this average is inferior to 8 annual ASSC; — 2.4 SSC+20% of the AGW of the past 5 years preceding the retirement date, if this average is between 8 and 12 annual ASSC Reduced rates apply for an executive seniority of less than 20 years.	10 years, from which at least 5 years as top executive + must be employed by the company at retirement	60 years
		2000	All employ-ees	Mandatory	DB	1.25% of com-panies' wage bill	4% of the AGW of the past 5 years preceding the retirement date. The AGW taken into account is calculated up to 4 ASSC	15 years + must be employed by the company at retirement	Full pension at 65 years Pension can be drawn earlier, but the amount is re-duced by 12% for each year of antici-pation
	Art. 83	2000	All employ-ees	Mandatory	DC	- 0.75% employer contribution up to 1 ASSC - 0.30% employee contribution from 1 to 4 ASSC		12 months	Same as *régime général* pension
	PERCO	2005	Potentially all employ-ees	Voluntary	DC	- employees' voluntary contributions (including payments from *intéressement* and *participation*) on all company savings plans (PEE, PEI, PERCO, PERCO-I) may reach a max. 25% of AGW - 100% employer matching contribution on payments from *intéressement* and *participation* up to 600 euros (in 2009)		3 months	

Table Appendix 1: PENSION SCHEMES AT AXA FRANCE

Notes: ASSC = Annual Social Security ceiling, AGW = Average gross wage

Sources: Trade Union websites as well as Axa, Annual Report 2007, p. 136 http://www.axa.com/lib/en/uploads/anr/group/2007/AXA_Annual_Report_2007.pdf

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